

State of New Hampshire's Annual Citizens Report

For The Fiscal Year Ended
June 30, 2005



Prepared by the
Department of Administrative Services

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State of New Hampshire's *Annual Citizens Report* For Fiscal Year Ended June 30, 2005

**Prepared by the Department of
Administrative Services**

Donald S. Hill, Commissioner

Division of Accounting Services

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This report provides citizens with an overview of the state's finances and economic trends in an easy to read format. It presents selected financial information on the state's major funds, including the general fund and education trust fund, unrestricted revenue results, and highlights government-wide financial data, in accordance with generally accepted accounting principles. Readers that have a need for more detailed information regarding the accounting policies, the various required accounting disclosures, and the financial status of all the individual state funds and component units, should obtain a copy of the State's Comprehensive Annual Financial Report (CAFR). This Citizen's Report and the CAFR, which includes the independent auditor's report, can be accessed by viewing our web site or by contacting the Department.

State Officials



Photo(L-R) Back: Commissioner Hill, Councilor Spaulding.
Front: Councilor Wieczorek, Councilor Griffin, Governor Lynch,
Councilor Burton, Councilor Pignatelli.

Selected State Officials as of June 30, 2005:

Governor

John H. Lynch

Executive Council

Raymond S. Burton, District 1
Peter J. Spaulding, District 2
Ruth L. Griffin, District 3
Raymond J. Wieczorek, District 4
Debora B. Pignatelli, District 5

President of the Senate

Thomas R. Eaton
24 Senators

Speaker of the House of Representatives

W. Douglas Scamman Jr.
400 Representatives

Message From the Governor

TO: The Citizens of the State of New Hampshire
and the Honorable Members of the Legislature

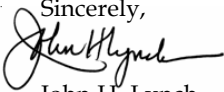
I am pleased to accept the *Fiscal Year 2005 State of New Hampshire Annual Report to the Citizens*.

We live in the greatest state in the greatest country in the world. I am committed to continuing to work with all the people of New Hampshire to keep it that way. In the past year, we've come together in Concord – Democrats and Republicans – to put aside partisanship and focus on getting good results for the people of New Hampshire. Together, we have conducted the state's business effectively and efficiently, turning last year's deficit into a surplus, passing a balanced budget that meets the needs of New Hampshire's people, and providing urgent relief to communities and citizens hard hit by sudden economic and natural disasters.

During the past year, we made significant progress on issues important to New Hampshire and its citizens:

- We balanced the FY06-FY07 biennial budget without smoke and mirrors and without new taxes, returning our state to a sound financial footing.
- We accumulated a modest surplus for FY05 and are pursuing legislation to put a significant portion of that surplus in the state's Rainy Day Fund to promote our future fiscal stability.
- We worked with New Hampshire's congressional delegation, local communities, and thousands of individual citizens to save the Portsmouth Naval Shipyard.
- We stabilized our small business health insurance market by repealing a law that allowed insurance companies to discriminate against sick workers.
- We increased the state's investment in the Healthy Kids Children's Health Insurance Program to make it possible for more of our youngsters to have health insurance.
- We established the Citizen's Health Initiative, bringing lawmakers, state officials, health care experts, business owners, workers, and insurance experts together for the first time to find effective ways for New Hampshire to improve the state's health care quality and control its health care costs.
- We improved the state's education funding system, sending more aid to the communities that need it most and eliminating the divisive system of property tax donor towns.
- We took action to preserve and protect the natural resources and beauty that make New Hampshire such a great place to live and work, fully funding New Hampshire's Source Water Protection Program, hiring a state energy manager to help reduce state government energy consumption and pollution emission, and putting a moratorium on construction and demolition debris burning throughout the state.

I am very proud of all we have accomplished in the past year. I would like to take this opportunity to thank you for your support, and to thank our great state employees for all their hard work and dedication. Without their efforts, and without the support and involvement of people from across New Hampshire, much of the progress we have made would not have been possible.

Sincerely,

 John H. Lynch
 Governor

New Hampshire's Scoreboard

<i>New Hampshire's Economic Scoreboard for 2005</i>		
<i>Categories</i>	<i>NH's National Rank</i>	<i>NH's Rank in New England</i>
Favorable Tax Climate	1st	1st
Healthiest State (Morgan Quitno, 2005)	2nd	2nd
Standard of Living (by Poverty Rate)	1st	1st
Child and Family Well-Being (Annie E. Casey, 2005)	1st	1st
Safest State (Morgan Quitno, 2004)	1st	1st
Most Livable State (Morgan Quitno, 2005)	1st	1st
College Educated Population	4th	2nd

Source: Dennis Delay, Workforce Opportunity Council, Inc

New Hampshire has continued to receive high quality of life rankings in Morgan Quitno's Most Livable State Awards, ranking first in standard of living, family well being, and the most livable state.

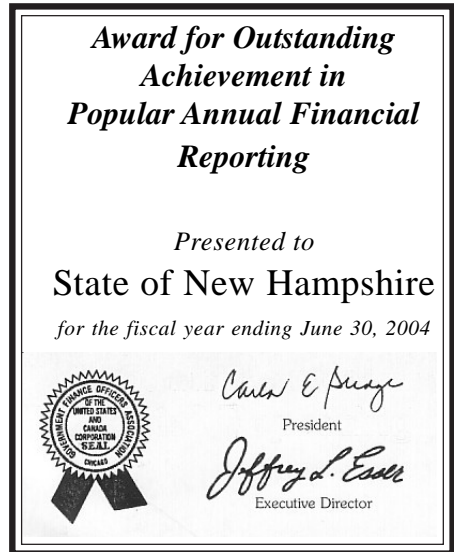
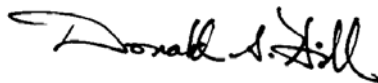
Message From the Commissioner

We would like to present our fiscal year 2005 *Annual Report to the Citizens*, prepared by the Department of Administrative Services. It is our hope that this report provides an overview of the state's core finances in a format that is useful and informative to the citizens of New Hampshire. It presents selected financial information for the state's general fund and education trust fund, including unrestricted revenue performance and a surplus statement.

We are pleased to announce that last years report received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officer's Association. This prestigious award recognizes conformance with the highest standards for preparation of state and local government reports.

New Hampshire experienced a relatively quick recovery from the significant economic downturns through the late 1990's. New Hampshire's diversified tax structure, with its reliance on the business enterprise tax and statewide property tax, have added stability to our revenue streams as compared to other states, which rely heavily on income tax proceeds. During 2005, the state's unrestricted revenue was \$160.4 million or 8.0% ahead of plan. A major contributor to this growth was double-digit gains in the Real Estate Transfer tax, which benefited from the continued strength in the housing market. In addition strong collections from the Business Taxes were seen, including one-time audit settlements of \$33.5 million.

The combined General and Education Fund Balances, at June 30, 2005 totaled \$82.2 million. This represents a significant gain over the prior year's balance of \$15.3 million and reverses the trend of deficits over the last several years. Lawmakers included \$30.5 million of the surplus to help balance the fiscal 2006-07 biennial budget and discussions are continuing on how to best utilize the remaining balance. As we move forward into the next biennium, it is our hope that the state's leadership will see the benefits in restoring the rainy day fund, that was depleted during the last recession.

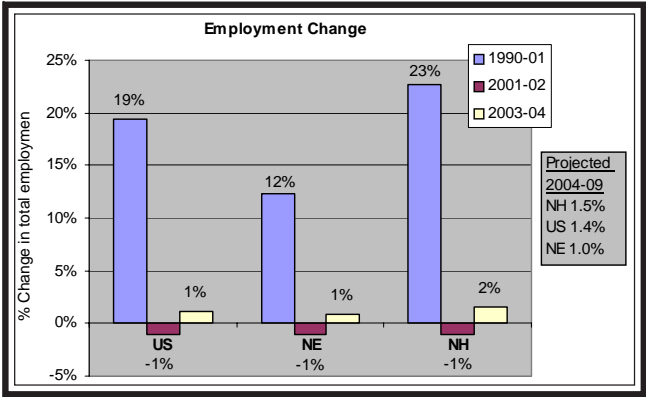



Donald S. Hill, Commissioner

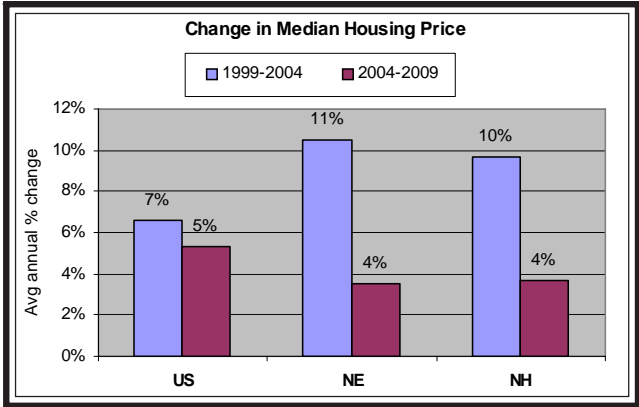
Economic Highlights of the Granite State

New Hampshire’s economy has had a steady recovery since the last recession. The state continues to experience the strongest growth in population and employment in New England. Per capita income levels are rising and poverty rates remain the lowest in the nation. New Hampshire is 1st in the nation for median household income. The state has retained its advantages over other states in the region with low unemployment, low tax burdens, highly educated and skilled workforce, and a small and accessible government. As of the date of this report, New Hampshire’s unemployment rate was 3.3%, which continues to track lower than New England (4.4%) and the national average (4.7%).

New Hampshire’s employment has expanded since the 2001 recession. During the recession, the state lost approximately 20,000 jobs, or slightly above 3.0% of total non-farm employment. Those losses were completely recovered by 2005 and moderate growth is projected, although not at levels seen during the “tech boom” in the 90’s. The considerable losses in manufacturing and high tech workforce have stabilized and are beginning to show improvement.



Home prices in New Hampshire have continued to rise rapidly. For the twelve months ended June 2005, house prices in NH rose by 12.4%, slightly below the region (13.0%) and nation (13.4%). Increased demand for housing and historically low mortgage rates, were the primary factors driving the increases. Home prices are expected to moderate, but not decline going forward. However, as mortgage rates rise, demand for new housing and refinancing activity may be reduced.



The direct effects from hurricanes Katrina and Rita on NH’s economy were slight, but higher energy costs are expected. Costs are generally more expensive in NH, as the state has few indigenous energy resources to replace the crude oil and natural gas supplies that were disrupted during the storms. It is estimated that spending on residential energy in NH could be as high as 5% of disposable income. However, even with these increased costs, employment growth is strong, and well above the national average.

Information Provided by New England Economic Partnership, Ross Gittell and James R. Carter Professor, Whittemore School of Business and Economics, University of New Hampshire.

Major Initiatives

Enterprise Resource Planning

Enterprise Resource Planning (ERP) is an information technology industry term for integrated, multi-module application software packages designed to serve and support several business functions across an organization. An ERP system is a strategic tool that helps the organization improve operations and management by integrating business processes and helping to optimize the allocation of available resources. These systems are typically commercial software packages that facilitate collection and integration of information related to various areas of an organization such as finance, accounting, human resources, inventory, procurement, and customer service. By becoming the central information center of the organization, ERP systems allow the organization to better understand its business, direct resources, and plan for the future. The systems enable the organization to standardize and improve its business processes to implement best practices for their industry.

The State of New Hampshire's Strategic Information Technology Plan (SITP) identified the need for an Enterprise Resource Planning System (ERP) solution to streamline business processes, improve operational efficiencies, and increase employee empowerment. In accordance with this SITP, the Department of Administrative Services (Department) authorized a feasibility study to identify alternatives for implementing such a solution. After assessing these alternatives, the Department requested approval from the Governor, Council, & Legislature, which was granted, to replace current systems and implement a new ERP System. The state's current financial and human resource systems are over 20 years old. The 2005 capital budget included \$19.0 million of appropriations for the ERP project.

During the winter 2005-2006, the Department reviewed request for proposals for ERP acquisition and implementation. It is anticipated that a vendor will be selected and awarded a contract in calendar year 2006, with hopes of implementation by the end of FY 07.

E-ZPass

E-ZPass is a remarkable toll collection technology that makes traveling more convenient, helps you save money through discount plans offered by many toll facilities, and helps reduce traffic congestion for everyone. Although the project began a few years ago, the State of New Hampshire's Department of Transportation began selling E-ZPass transponders during the end of fiscal 2005 and brought the E-ZPass system on line in early fiscal 2006.

Conventional toll collection methods require you to deposit coins, tickets, and tokens at toll plazas. This challenges highway capacity because the number of vehicles that can be processed at toll plazas is limited. With E-ZPass' electronic toll collection (ETC) technology, account information on an electronic tag installed in the car is read by a receiving antenna at the toll plaza. The toll is electronically deducted from a prepaid toll account. Not only does E-ZPass make toll collection more convenient for citizens and travelers, it helps achieve a number of benefits for everyone.

E-ZPass is accepted anywhere you see:



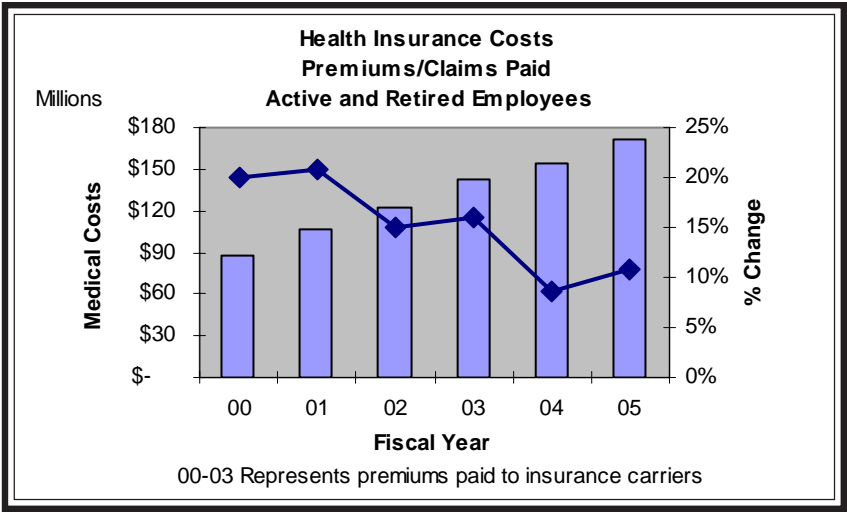
Self - Insurance Initiative

Employee Benefit Risk Management Fund

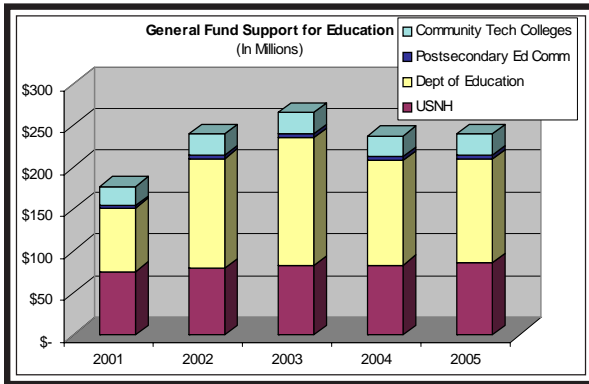
Chapter 251, Laws of 2001, authorized the Commissioner of Administrative Services to provide a self-funded alternative to traditional insurance programs for employee benefits to aid in controlling the rise in insurance costs. As a result, a new fund, titled the Employee Benefit Risk Management Fund, was established beginning in October 2003. The fund was created to manage the state’s self-insurance program and to pool all resources to pay for the cost associated with providing employee health benefits for active state employees and retirees. Agencies are charged an actuarially determined contribution to be paid into this new fund on a bi-weekly basis. These contributions are intended to cover the costs of claims presented, stop-loss coverage, administrative fees and reserve requirements. Claims payments by the third party administrator to the providers are reimbursed by the state daily out of this new fund.

The state is currently analyzing the first twenty-one months of activity in this fund. The state has contracted with a consulting firm to assist and provide actuarial, claims audit and general consulting services in order to evaluate the performance of this fund and to determine the best way to control health benefit costs through this arrangement.

At June 30, 2005, the fund ended the year with a surplus of \$2.8 million and cash on hand of \$17.3 million.



Education



The chart represents the General Fund contribution to Educational programs which totaled close to \$250 million in FY05.

The Department of Education continues its commitment to defining the state's standards of measurement of school progress. During the 2005 school year \$805 million dollars was appropriated for adequate education grants to local schools and was paid out of the state's Education Trust Fund.

The results of the first year **New England Common Assessment Program** (NECAP) were released on March 22, 2006. 66% percent of New Hampshire students tested were proficient or better in reading. In mathematics, 62 % of students were proficient or better. In writing, 50% of students tested were found proficient or better.

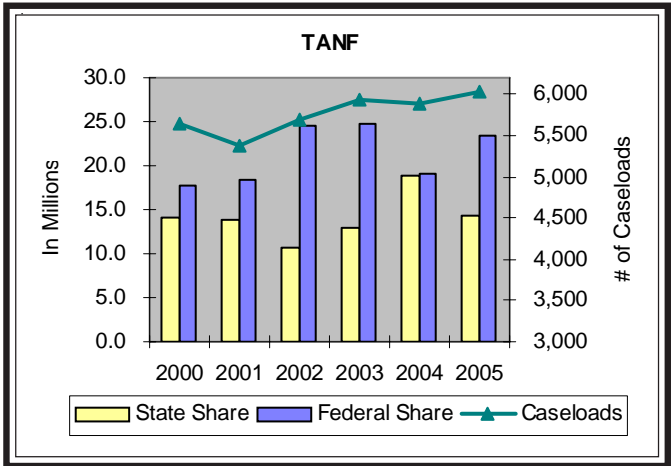
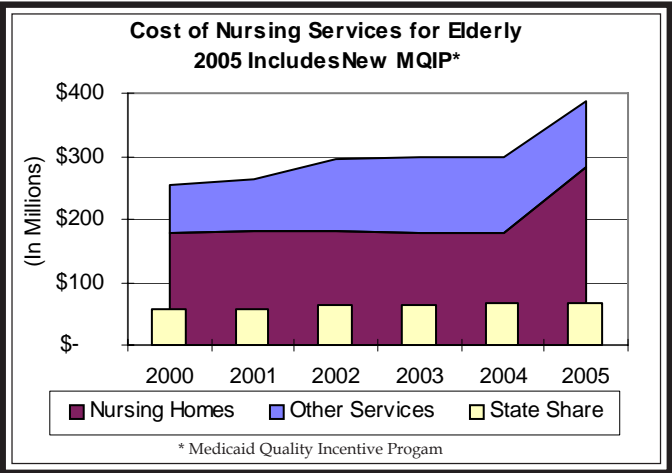
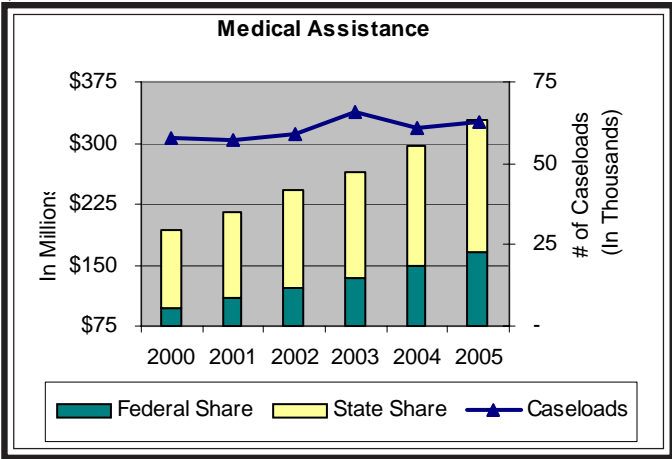
NECAP will be administered annually to all students in Grades 3-8 to measure proficiency in reading and mathematics, and in Grades 5 and 8 for writing. NECAP aligns with New Hampshire's Follow The Child initiative, which emphasizes personalized learning, timely interventions, and following each child's progress over time; however, a single annual assessment is not a sufficient way of measuring overall student success. In evaluating the success of students and schools, it is essential that community leaders, parents and educators consider multiple forms of assessment, community involvement, attendance and graduation rates, the number of children pursuing further education after high school, school safety, discipline records, and other relevant information. More information, as well as results for schools, districts, and the state can be found at www.ed.state.nh.us/NECAP.

The mission of the State's **Community Technical College System** (NHCTCS) includes ensuring that New Hampshire has the skilled workforce necessary to support and attract businesses, to position the state competitively in a global economy, and to meet the needs of NH residents. The NHCTCS fulfills this mission by offering quality programs linked to workforce needs, and by providing access in all regions of the state through a network of campuses.

The fields of Nursing and Allied Health have been of particular importance to the state in recent years. As NH's senior population grows and as health professionals retire, the state will need greater numbers of nurses and other health professionals. The NHCTCS has made expanding access to health programs a major strategic goal. Each of the seven campuses offers a nursing program, and all campuses have partnerships with regional health care facilities to offer students access to clinical experience.

The Concord Technical Institute (NHTI) is currently in the home stretch of its first capital campaign, called "Building our Future ... Caring for Yours" ... to raise \$3 million for a new 20,000 square foot Health Education Center. To date NHTI has raised about \$2.4 million. The new facility will enable NHTI to increase enrollment in nursing programs by 60%, adding 40-50 registered nurses to its completion/graduation number each year.

Health & Human Services



Program Summary

The NH Legislature and the Governor created a central umbrella agency in 1995 to make it easier for citizens to access programs and services and to reduce administration costs. The Department of Health and Human Services (DHHS) is responsible for many of the regulatory, programmatic, and financial aspects of NH's health care system and plays a key role in the planning, delivery and financing of health care. It provides social and support services to families with chronically ill or disabled members and to families in crisis. DHHS also provides economic supports including childcare funding, financial grants, employment support services, medical assistance, food assistance and child support services.

The Medicaid program is the largest program managed by DHHS consuming approximately 69% of the DHHS budget. The Medicaid program functions as a safety net for clients who meet income and medical eligibility criteria such as: lower income adults with children, the elderly, low-income pregnant women, and disabled adults. Services are

*C*lose to 40% of total state spending is for Health & Human Service Programs. Expenditures for Health & Human Services totaled \$1.7 billion in FY05, an increase of \$121 million (7.4%) from last year.

provided by 4,000 community providers who receive reimbursement from the Medicaid program. The Medicaid program finances medical services for approximately 64,000 families and 97,000 individuals and federal financial participation is 50% for most services. The cost of the Medicaid program has been increasing although eligibility criteria have remained consistent. Approximately half of the increase is attributable to growth in enrollment with the balance of the cost increase created by higher health care costs particularly in pharmaceutical drugs. While the number of Medicaid supported nursing home beds has remained fairly stable at 4,800 beds, the number of elderly supported in the community has increased by 50% since 1998. The number of elderly needing assistance is escalating, as is the cost of health care.

DHHS has undertaken several cost containment efforts to increase efficiencies and provide funding for the increasing demand for services. These include: consolidation of non-integrated service delivery systems, reductions in administrative costs across all service contracts, disease management, unified case management for dual diagnosed clients, and internal reorganization to streamline processes and maximize resources. During FY05, DHHS achieved \$80 million in cost reductions from the original appropriation. \$36 million was used to fund increases in program costs, primarily Medicaid, and the balance was returned to the State general fund.

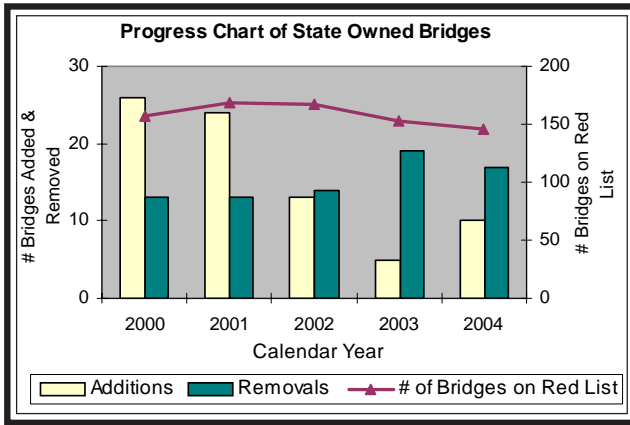
On July 1, 2004, the NH Legislature passed Chapter 260, L'04 (SB 376) which enacted a nursing facility quality assessment fee equal to 6% of the nursing facilities' net patient services revenues effective back to May 1, 2003.

A major challenge for DHHS in FY06 is the integration of the Medicare Part D drug benefit, which begins January 1, 2006. It is estimated that there about 18,000 dual eligibles (clients who qualify for both Medicare and Medicaid). On January 1, 2006 Federal Medicaid match ends for any prescription claim for dual eligibles and most drugs will be covered by the Medicare program. States must make monthly "clawback" payments to the federal government, which recovers most of State "savings". This significant change in the Medicare benefit is very complex and the finances and administrative burden to the State are still being evaluated.

Public Works

During fiscal year 2005, the New Hampshire Department of Transportation (DOT) continued to improve and upgrade the state's transportation system, making travel safer and more accessible for New Hampshire's tourists and its residents.

The NH Turnpike Bureau estimated a total of 110 million vehicles traveled through NH roadways and toll revenues increased to \$66.7 million, just over 1% from the previous year. The Turnpike System expansion continues, although the plan has been slowed by modest revenue growth. At the end of fiscal 2005, the state completed its \$20 million Ezpass project which involved an overhaul of the entire toll collection system. New toll transponders were rolled out to travelers and the system began operation during July 2005.



The Department's Red List reports bridges with known deficiencies. The calendar year Red List reported 146 state-owned bridges on the list, with 10 added while 17 were removed during the year.

Major projects completed in FY 2005 include the following:

- The widening and reconstruction of Interstate 293 from the Merrimack River to South Willow Street in Manchester (\$13 million)
- The widening and rehabilitation of NH 101 from I-93 to East of Exit 1 in Manchester and Auburn (\$12 million)
- Replacement of the US Route 4 Bridge over the Merrimack River in Boscawen (\$11 million)
- A new Bridge on the NH 111 Bypass over Flatrock Brook in Windham (\$10.5 million)
- Work began on the reconstruction of the I-293 Exit 5 (Granite Street) interchange in Manchester (\$9.1 million – first phase)

The Flood of October 2005:

- State forces responded to serious flooding and road damage in the southwestern part of the state in October, reducing the number of closed road mileage from 57 miles to less than 5 miles in four days.
- The State's Emergency Operation Center was manned around the clock and the National Guard was mobilized to provide services to the citizens of affected communities.
- The State provided generators, communications equipment, jersey barriers and, in cooperation with the Red Cross, food and water.
- President Bush signed a declaration authorizing FEMA's financial assistance in Cheshire, Grafton, Hillsborough, Merrimack and Sullivan counties.
- The State of New Hampshire Disaster Relief Fund distributed money to local charities to help flood victims.

Debt Administration

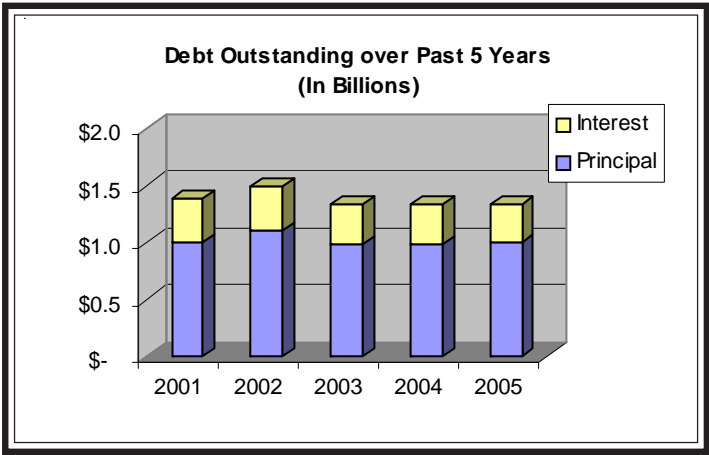
The state may issue general obligation bonds, revenue bonds, and notes in anticipation of such bonds authorized by the Legislature and Governor and Council. The state may also directly guarantee certain authority or political subdivision obligations. At the end of the current fiscal year, the state had total bonded debt outstanding of \$995.8 million. Of this amount, \$701.0 million are general obligation bonds, which are backed by the full faith and credit of the state. The remainder of the state’s bonded debt is Turnpike revenue bonds, which are secured by the specified revenue sources within the Turnpike System.

On December 10, 2004, the State issued \$60 million of general obligation capital improvement bonds. The interest rates of these 20-year bonds will be variable per the provisions of their auction rate security (ARS) features. These ARS Bonds are different from past bond issues in that these bonds carry an interest rate that will change every seven days through an auction process specified in the terms of the bonds. A portion of the proceeds from this issue was used to pay off \$50 million of bond anticipation notes which were outstanding at June 30, 2004.

On January 19, 2005, the state issued \$15 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 3.0% to 4.25%, and the maturity dates range from 2006 through 2025.

Also on January 19, 2005, the state issued \$42.8 million of taxable general obligation bonds to fund the unfunded accrued liability attributable to a newly established retirement plan for state judges pursuant to Chapter 311, Laws of 2003. The interest rates on these serial bonds range from 3.4% to 4.65%, and the maturity dates range from 2006 through 2015.

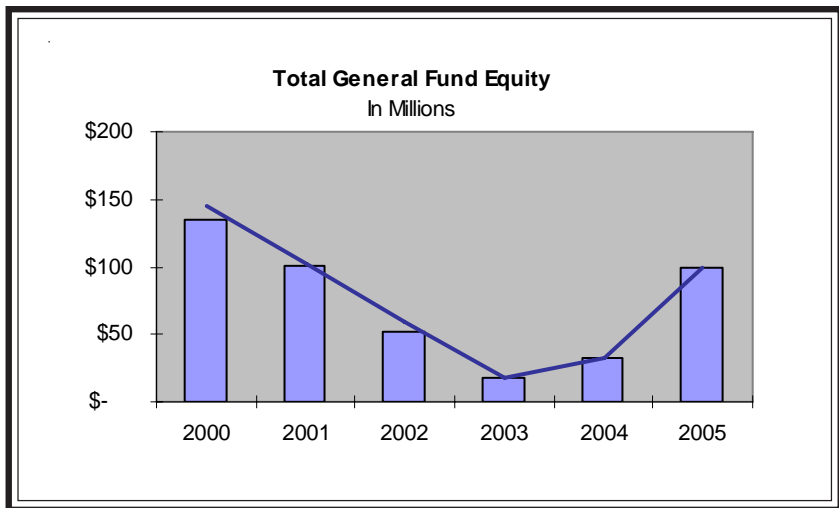
The state does not have any debt limitations, except for contingent debt guarantees, which are detailed in the state’s Comprehensive Annual Financial Report (CAFR). Additional information on the state’s long-term debt obligations can be found in Footnote 5 of the CAFR.



Surplus: General & Education Funds

(In Millions)

	FY 2003	FY 2004		FY 2005			
	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	(37.9)	0.0	0.0	0.0	15.3	0.0	15.3
Additions:							
Unrestricted Revenue	2,049.0	1,310.7	848.0	2,158.7	1,391.6	770.3	2,161.9
Transfers of Appropriation from General Fund	83.4		62.6	62.6		61.4	61.4
Total Additions	2,132.4	1,310.7	910.6	2,221.3	1,391.6	831.7	2,223.3
Deductions:							
Appropriations Net of Estimated Revenues	(2,169.2)	(1,362.3)	(895.0)	(2,257.3)	(1,409.2)	(793.0)	(2,202.2)
Less Lapses	16.0	34.5		34.5	58.0	(19.0)	39.0
Total Net Appropriations	(2,153.2)	(1,327.8)	(895.0)	(2,222.8)	(1,351.2)	(812.0)	(2,163.2)
GAAP and Other Adjustments	(17.8)	1.5	(7.7)	(6.2)	4.0	2.8	6.8
Other One-Time Revenue Adjustments							
DHHS Enhancement Revenue	4.7	19.2		19.2			-
Other Revenue Adjustments		3.8		3.8			-
Current Year Balance	(33.9)	7.4	7.9	15.3	44.4	22.5	66.9
Fund Balance Transfers (To)/From:							
Rainy Day Fund	37.9						
Health Care Fund	33.9						
Education Trust Fund		7.9	(7.9)		22.5	(22.5)	
Undesignated Fund Balance, June 30,	0.0	15.3	0.0	15.3	82.2	0.0	82.2
Reserved for Rainy Day Account	17.3	17.3		17.3	17.3		17.3
Total Equity	17.3	32.6	0.0	32.6	99.5	(0.0)	99.5



Fund Level Highlights

In order to balance the fiscal 2006-07 biennial budget, the legislature anticipated a surplus of \$30.5 million for fiscal 2005. However, the actual combined General and Education Fund surplus at June 30, 2005 was \$82.2 million, \$51.7 million higher than expected. The favorable surplus was primarily the result of continued growth in the real estate market, increases in revenue from business taxes, one time business audit settlements, and greater than expected lapses. In accordance with Chapter 177:122, Laws of 2005, the biennial transfer of surplus from the General Fund to the Rainy Day Account was suspended.

General and Education Fund unrestricted revenue for fiscal year 2005 totaled \$2,161.9 million, which was \$160.4 million (8.0%) over plan and \$3.2 million over the prior year. More than half of the increase was from 2 major revenue sources, the real estate transfer tax and business taxes. In addition to increases in taxes collected from the business profits and business enterprise tax, the state recognized \$33.5 million in one-time audit settlements at the end of the year.

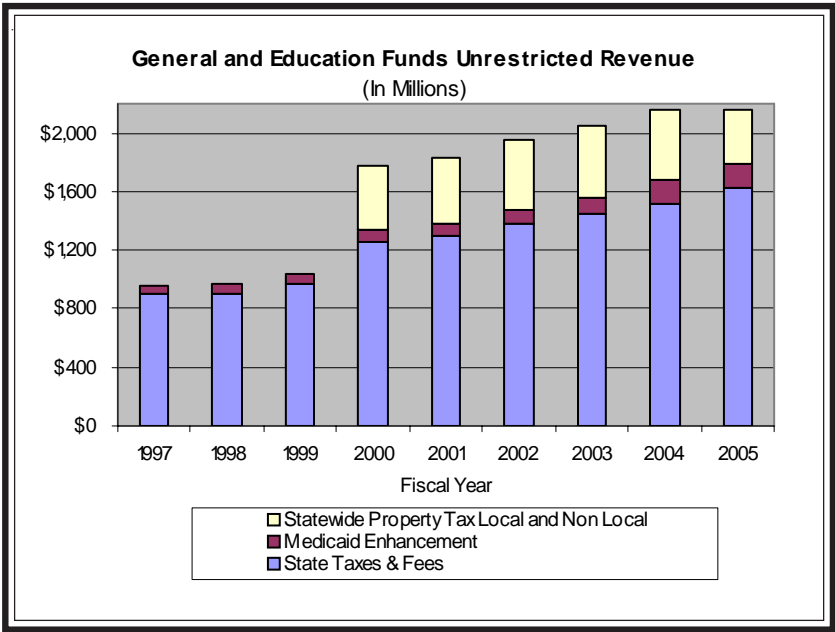
Net appropriations, including anticipated budget reductions and savings from budget initiatives, for the General Fund were \$1,409.2 million, which was a minimal increase of \$46.9 million (3.4%) from the prior year. (As a comparison, The General Fund net appropriations from fiscal 2003 to 2004 increased 7.8%.) The net appropriations for the Education Fund were \$793.0 million, a decrease of \$102.0 million (11.4%) over the prior year as a result of changes to the education funding laws.

Lapses for fiscal 2005, for the General Fund, were \$58.0 million as compared to \$34.5 million for fiscal 2004. Although lapses from salary and benefits were similar year to year, increases over fiscal 2004 were seen in several program areas, including the Department of Health and Human Services (\$6.9 million), the Liquor Commission (\$1.8 for not completing the Nashua liquor store), and savings for retirees health insurance (\$6.3 million) from effective cost containment measures.

Unrestricted Revenue

(In Millions)								
Revenue Category	FY 2003	FY 2004			FY 2005			FY 2005 Combined Plan
		General	Education	Total	General	Education	Total	
Business Profits Tax.....	\$ 174.8	\$ 131.6	\$ 41.0	\$ 172.6	\$ 196.6	\$ 50.7	\$ 247.3	\$ 234.9
Business Enterprise Tax.....	218.0	118.5	116.9	235.4	114.1	130.6	244.7	180.1
Subtotal.....	392.8	250.1	157.9	408.0	310.7	181.3	492.0	415.0
Meals & Rooms Tax.....	175.4	178.5	6.9	185.4	186.5	7.1	193.6	191.2
Tobacco Tax.....	94.1	71.5	28.6	100.1	73.3	28.2	101.5	94.9
Liquor Sales and Distribution.....	99.0	106.7		106.7	112.6		112.6	114.5
Interest & Dividends Tax.....	55.1	55.6		55.6	67.9		67.9	64.0
Insurance Tax.....	82.2	86.2		86.2	88.7		88.7	85.6
Communications Tax.....	62.4	65.8		65.8	70.0		70.0	69.0
Real Estate Transfer Tax.....	118.2	95.2	47.5	142.7	107.8	52.0	159.8	123.5
Estate and Legacy Tax.....	59.1	27.0		27.0	11.7		11.7	11.4
Transfers from Lottery Commission.....	66.6	-	73.7	73.7		70.3	70.3	71.0
Tobacco Settlement.....	45.9	1.8	40.0	41.8	2.4	40.0	42.4	39.6
Utility Property Tax.....	18.8	-	20.2	20.2		20.1	20.1	20.5
Property Tax Not Retained Locally.....	32.7		29.8	29.8		20.9	20.9	22.4
Property Tax Retained Locally.....	453.0		443.4	443.4		350.4	350.4	351.1
Other.....	160.1	167.0		167.0	150.7		150.7	142.6
Subtotal.....	1,915.4	1,105.4	848.0	1,953.4	1,182.3	770.3	1,952.6	1,816.3
Net Medicaid Enhancement Revenues.....	117.0	149.8		149.8	147.2		147.2	146.6
Recoveries.....		20.4		20.4	23.0		23.0	15.8
Subtotal.....	2,032.4	1,275.6	848.0	2,123.6	1,352.5	770.3	2,122.8	1,978.7
Other Medicaid Enhancement Revenues to Fund Net Appropriations.....	16.6	35.1		35.1	39.1		39.1	22.8
Total.....	\$ 2,049.0	\$ 1,310.7	\$ 848.0	\$ 2,158.7	\$ 1,391.6	\$ 770.3	\$ 2,161.9	\$ 2,001.5

(1) Plan represents the original legislative estimates contained in the operating budget that was adopted in September 2003.



Unrestricted Revenue Highlights

Consistent with recent growth in the economy, revenue collections came in significantly higher than original estimates. Fiscal 2005 unrestricted revenue for the General and Education funds totaled \$2,161.9 million, which exceeded the plan by \$160.4 million (8.0%).

Current Year Performance highlights are noted below:

- Business Taxes totaled \$492.0 million, \$77.0 million above plan and \$84.0 million over prior year. Included in the fiscal year 2005 revenue was approximately \$33.5 million of one-time audit settlements.
- Real Estate Transfer Tax collections totaled \$159.8 million, \$36.3 million (29.4%) above plan and \$17.1 million (12.0%) over prior year. The growth is the result of rising home prices, continued sales activity spurred by low interest rates, and audits.
- Meals and Rooms totaled \$193.6 million, \$2.4 million above plan and \$8.2 million (4.4%) over prior year.
- Interest & Dividends Tax totaled \$67.9 million, \$3.9 million above plan and \$12.3 million (22.1%) over prior year, due to a more favorable interest environment.
- Insurance Tax totaled \$88.7 million, \$3.1 million above plan and \$2.5 million (2.9%) over prior year.
- Communications Tax totaled \$70.0 million, \$1 million above plan and \$4.2 million (6.4%) over prior year.

Prior Year Comparison:

When comparing fiscal 2005 results to 2004, total unrestricted revenue for the General and Education funds were slightly ahead by \$3.2 million. Shortfalls in the Statewide Property Tax, Estate and Legacy Tax, and the Flexible Grant, offset the growth in Business taxes and Real Estate Transfer tax. The Statewide Property Tax declined in revenue by \$101.9 million as a result of rate changes from \$4.92 to \$3.33 per thousand. The Estate & Legacy Tax collections were \$15.3 million less than prior year due to the phase out of the tax, combined with large one-time gains received last fiscal year. Lastly, during FY 2004 the State received the second of two \$25 million Flexible Grant payments relating to the Federal Jobs and Growth Reconciliation Act of 2003. The grant payments were applicable to fiscal years 2003 and 2004 and were not a recurring source of revenue.

Government-Wide Financial Data: Net Assets

New Hampshire’s government-wide financial statements include a Statement of Net Assets and a Statement of Activities. On both statements, governmental and business-type activities are segregated. Governmental Activities represent most of the state’s basic services and are generally supported by taxes, grants, and intergovernmental revenues. Business-Type Activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services.

The full accrual method of accounting is used, like many businesses, and recognizes revenue and expenses when the earning process is complete regardless of when cash is received or disbursed. This results in the broadest perspective on finances.

The Statement of Net Assets reports the state’s total assets and liabilities. The difference between assets and liabilities represents net assets.

State of New Hampshire Condensed Statement of Net Assets				
Primary Government as of June 30, 2005				
(In Millions)				
	Governmental		Business-Type	
	Activities		Activities	
				Total
Current assets	\$	872.2	\$	370.4 \$ 1,242.6
Capital assets		1,956.5		549.0 2,505.5
Other assets		294.5		31.0 325.5
Total assets		3,123.1		950.4 4,073.6
Long-term liabilities		698.0		295.6 993.6
Other liabilities		430.3		69.3 499.8
Total liabilities		1,128.3		365.0 1,493.3
Net assets:				
Invested in capital assets,				
net of related debt		1,271.9		238.1 1,510.0
Restricted		262.9		318.1 581.1
Unrestricted		460.0		29.2 489.2
Total net assets	\$	1,994.8	\$	585.4 \$ 2,580.2

The state’s combined net assets (government and business-type activities) totaled \$2.6 billion at the end of 2005, compared to \$2.4 billion at the end of the previous year.

Investment in Capital Assets: The largest portion of the state’s net assets (58.5%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (roads and bridges), less any related outstanding debt used to acquire those assets. The states investment in capital assets increased \$41.5 million from prior year. This increase was the result of net additions of capital assets of \$110.2 million during the year combined with a reduction in capital related debt of \$68.7 million. Although the state’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally cannot be used to liquidate these liabilities.

Restricted Net Assets: An additional portion of the state’s net assets (22.5%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets increased \$36.1 million from prior year due to an increase in water pollution control loans during the year.

Unrestricted Net Assets: The state’s unrestricted net assets, totaling \$489.2 million, may be used to meet the state’s ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

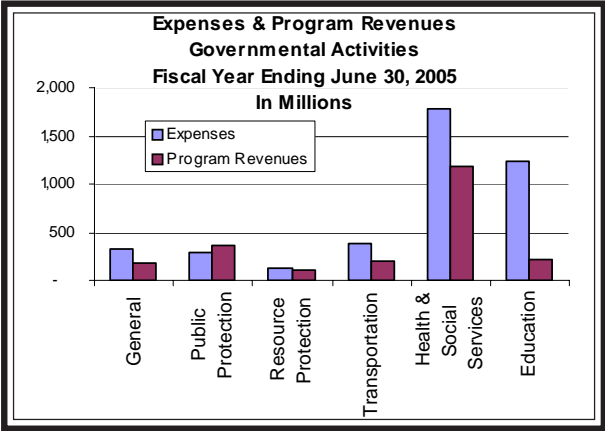
Governmental Type Activities

Governmental Activities

Direct expenses from Governmental activities of \$4.2 billion exceeded program revenues of \$2.3 billion resulting in a shortfall of \$1.9 billion. Program revenues, include charges for goods or services and Federal and Local Grants, which directly support program expenses. The shortfall of \$1.9 billion was funded through General Revenues, primarily taxes. Although expenses grew 0.3%, the growth in total governmental activity revenues of 2.4% was sufficient to offset the increased costs.

Condensed Schedule of Expenses & Program Revenues			
Primary Government-Governmental Activities			
For Fiscal Years Ending June 30, 2005			
(In Millions)			
Fuctions/Programs	Expense	Program Revenues	Net Revenue/(Expense)
Governmental Activities:			
General government	\$ 331.7	\$ 189.0	\$ (142.7)
Administration of justice and public protection	288.7	356.8	68.1
Resource protection and development	130.1	109.3	(20.8)
Transportation	383.4	199.1	(184.3)
Health and social services	1,785.5	1,188.4	(597.1)
Education	1,235.2	218.6	(1,016.6)
Interest Expense	29.5		(29.5)
Total Governmental Activities	\$ 4,184.1	\$ 2,261.2	\$ (1,922.9)

A comparison of the cost of services by function for the state’s governmental activities with the related program revenues is shown below. Note that the largest expenses for the state, Health and Social Services and Education, also represent those activities that have the largest gap between expense and program revenues. Since these expenses are least recovered from program revenues, the differences are made up from general revenues, which primarily represent state’s taxes, such as the statewide property taxes, business profits tax, business enterprise tax, real estate transfer, tobacco, meals and rooms, interest and dividends, etc. Educational expenses decreased approximately 6.0% from the previous year, while Health and Social grew less than 1.0% from the previous year.



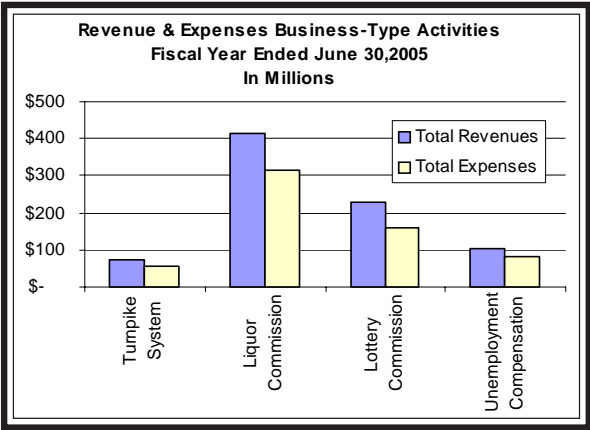
Business-Type Activities

Business Type Activities

Business-Type activities include the operations from the Liquor Commission, Lottery Commission, Unemployment Compensation Fund, and Turnpike Fund. A comparison of revenue and expenses for business-type activities is shown below. Charges for goods and services for the state’s combined business type activities were more than adequate to cover the operating expenses and resulted in program revenue greater than the expenses by \$203.3 million.

Condensed Schedule of Expenses & Program Revenues			
Primary Government-Business Type Activities			
For Fiscal Years Ending June 30, 2005			
(In Millions)			
Fuctions/Programs	Expense	Program Revenues	Net Revenue/(Expense)
Business-type Activities:			
Turnpike System	\$ 58.6	\$ 74.2	\$ 15.6
Liquor Commission	313.8	411.7	97.9
Lottery Commission	160.3	230.6	70.3
Unemployment Compensation	82.5	102.0	19.5
Total Business-type Activities	\$ 615.2	\$ 818.5	\$ 203.3

- Sales growth from the operations of the Liquor Commission resulted in net proceeds of \$97.9 million, a 6.1% increase from prior year. Of these proceeds, \$97.7 million was transferred to the General Fund to fund the general operations of the State.
- The lack of significant Powerball drawings during the year contributed to a 4.7% decline in net proceeds from the Lottery Commission. The \$70.3 million profit was transferred to the Education Fund.
- The Turnpike System net revenue was \$15.6, a decrease of 3.4% primarily due to lower toll revenue growth.
- The operations of Unemployment Compensation net revenue increased by \$19.5 million as claim levels declined sharply with the recovering economy.





**State of New Hampshire
Department of Administrative Services
Division of Accounting Services**

Front Cover Photo taken by and provided courtesy of Frank Harris. The photo was taken in Bristol, NH off West Shore Road near Wellington State Beach on Newfound Lake.

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